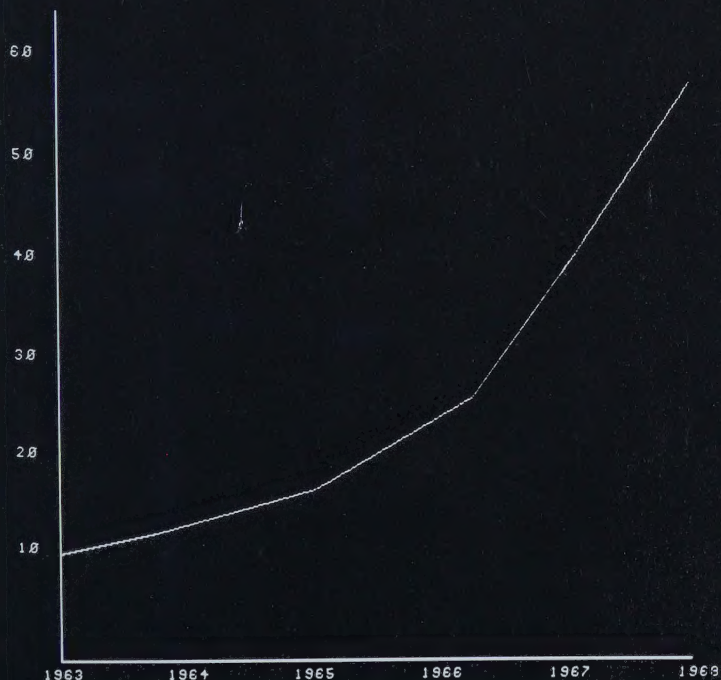


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DIGITAL EQUIPMENT CORPORATION
ANNUAL REPORT
1968

HIGHLIGHTS FROM DEC ANNUAL REPORTS

FISCAL YEARS ¹	1968	1967	1966	1965	1964	1963
Net Sales	\$57,339,400	\$38,895,782	\$22,776,434	\$14,982,920	\$10,909,565	\$9,906,968
Income Before Taxes	12,934,690	8,319,760	3,500,662	1,387,025	1,780,629	2,399,104
U.S. & Foreign Income Taxes	6,078,000	3,778,555	1,550,122	646,140	878,015	1,218,907
Net Income	6,856,690	4,541,205	1,950,540	740,885	902,614	1,180,197
Total Assets	\$36,496,876	\$21,733,105	\$15,111,228	\$10,775,990	\$5,708,173	\$4,835,580
Current Assets	33,562,457	19,970,723	13,391,341	9,660,318	4,999,711	4,248,646
Current Liabilities	13,806,354	6,016,348	8,725,926	6,371,978	1,796,346	1,803,866
Stockholders Equity	22,690,522	15,707,382	6,363,427	4,365,887	3,557,452	2,661,089
No. of Shares Outstanding	2,926,600	2,910,000	2,675,000	2,580,000	2,555,000	2,532,500
Net Income Per Share ²	\$2.34	\$1.56	\$0.73	\$0.29	\$0.35	\$0.47

¹ Fiscal year ends on Saturday nearest June 30.

² Based on number of shares outstanding at year end adjusted for stock split effective July 1, 1966.

SUMMARY OF COMPARATIVE PERFORMANCE

	DEC	INDUSTRY
Changes in Sales (1968 vs. 1967)	47.4%	25.8%
Changes in Profits (1968 vs. 1967)	51.0	13.2
Return on Invested Capital	30.2	14.2
Return on Sales	12.0	5.3
Sales per Employee	\$21,794	\$16,475
Assets per Employee	13,872	13,553
Sales per Dollar of Invested Capital	2.53	2.23

This tabulation is based on the performance factors and statistics developed by editors of FORTUNE in their directory of the 500 largest U.S. Industrial Corporations (June 15, 1968). It compares the performance of Digital Equipment Corporation (for the fiscal period from July 3, 1967 to June 29, 1968) with the industry medians for manufacturers of office equipment (including computers) listed in the FORTUNE directory for the year ending December 31, 1967.

ON THE COVER:
Image on the screen of a Type
338 Display shows history of
continued growth of Digital
Equipment Corporation.

PRESIDENT'S LETTER

I am pleased to report the results of another good year for Digital Equipment Corporation. Sales volume increased over the previous year by \$18,443,618 to \$57,339,400, and earnings increased by \$2,315,485 to \$6,856,690. These increases are greater in amount than the entire volume and earnings of the Company in the Fiscal Year 1965.

DEC is a manufacturer of proprietary products, which include small-, medium-, and large-size computers, peripherals, and the components from which computer-like devices are made. DEC is probably the leading manufacturer of small- and medium-size computers for industrial and scientific markets, and has led the way in equipment and software for large, time-sharing computers. In this last year, we have invested about \$6 million in the further development of software, products, and manufacturing processes for this proprietary line. By aiming our product development to specific customers' needs, we have developed products which are less expensive and more convenient to use, and have thus avoided the development of products which are appreciated only for their own specifications.

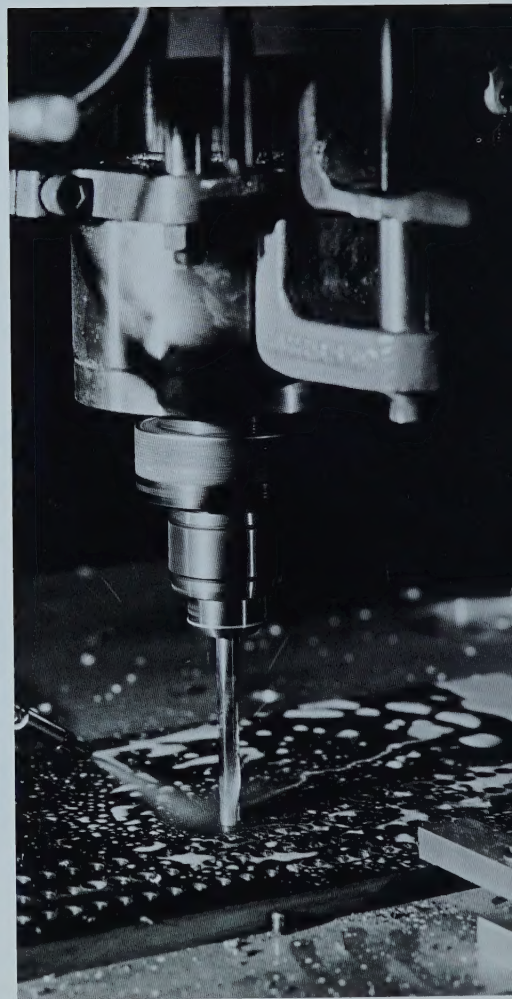
During the past year, we have successfully followed an extensive program for recruiting and training the managerial and technical staff to support our growth in sales, service, engineering, programming, and manufacturing. We have attracted skilled managers by maintaining an atmosphere which gives the challenge and responsibility of entrepreneurship, and we have attracted skilled engineers by offering the opportunity to see an idea from conception through development to manufacturing, with the chance to measure its success.

I am confident that Digital Equipment Corporation is entering its twelfth year of operation in a good financial position, with a broad foundation of products and skilled technical and management personnel to continue growth.



Kenneth H. Olsen
President

FOCUSING ON THE MARKETPLACE



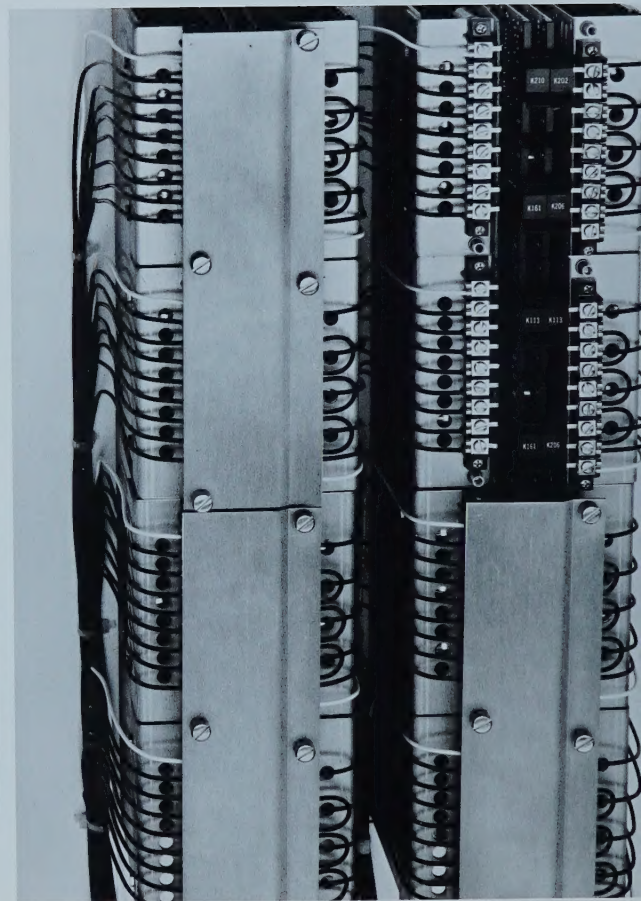
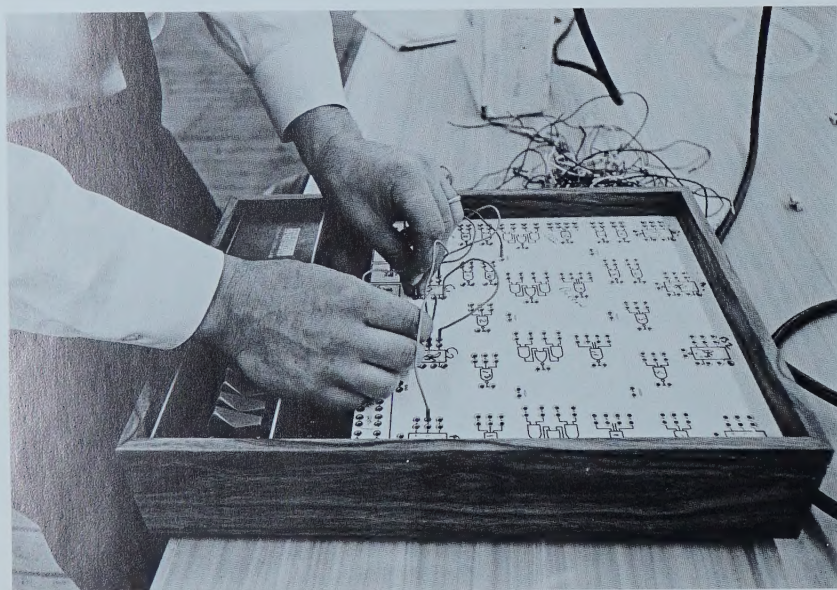


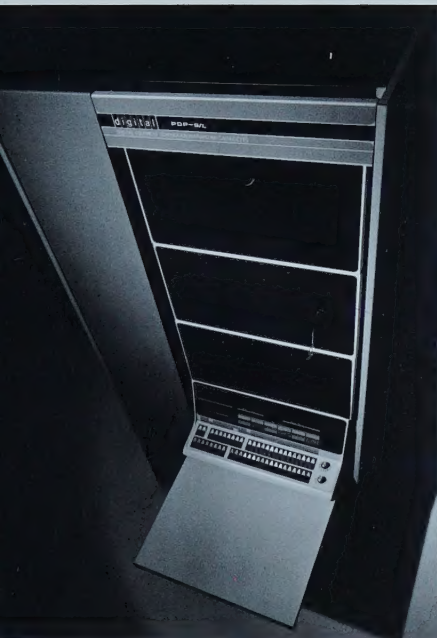
More than 3,000 DEC computers are now installed throughout the world, making the Company the fourth ranking manufacturer in terms of computers installed.

- There are 400 computers in biomedical research, 900 in physics and chemistry applications, 150 in typesetting, and 72 in shipboard navigation and oceanography. Other applications include industrial data acquisition, data communications, hybrid simulation, and time-sharing utilities. In addition, there are 30 equipment manufacturers who use our computers as a basic component for their products.
- The Company's leadership has been strengthened in several markets through the development of integrated hardware/software systems called "Computerpacks." These Computerpacks provide turn-key operations for users desiring systems that require a minimum of programming and computer experience.

COMPUTERPACK	APPLICATION
LAB-8	Analytical laboratories
NMR-8	Nuclear magnetic resonance spectroscopy
PHA-8	Pulse height analysis
GASCHROM-8	Gas chromatography
NAVIG-8	Shipboard navigation control
QUICKPOINT-8	Numerical control tape preparation
INDAC-8	Industrial data acquisition
COMMUNIC-8	Data communication
TYPE-8	Graphic arts
TIME-SHARED-8	Small computer, general-purpose time-sharing
EDUCATIONAL SYSTEM	Computer-aided instruction
SUPER-CALC	Computer-based calculator

THE DEC PRODUCT LINE





Digital Equipment Corporation designs and manufactures a broad range of powerful, low-cost computers and computer-related products for users in science and industry. The following summary description provides an overview of our rapidly-growing product line.

- General-Purpose Computers:

Small— PDP-8, PDP-8/S, PDP-8/I, PDP-8/L, and LINC-8 are the most widely-used family of small computers.

Medium— PDP-9 and PDP-9/L offer medium-scale performance at small-scale price.

Large— PDP-10 provides the best cost/performance ratio and the most complete time-sharing software in the industry.

- Peripheral Devices:

Analog-to-digital and digital-to-analog converters, magnetic tape transports, paper tape readers and punches, magnetic disk memories, graphic displays, card readers, and line printers.

- Modules:

K-Series—for control applications in industrial environments requiring high immunity to noise.

M-Series—for high-speed computer interfacing and instrumentation applications.

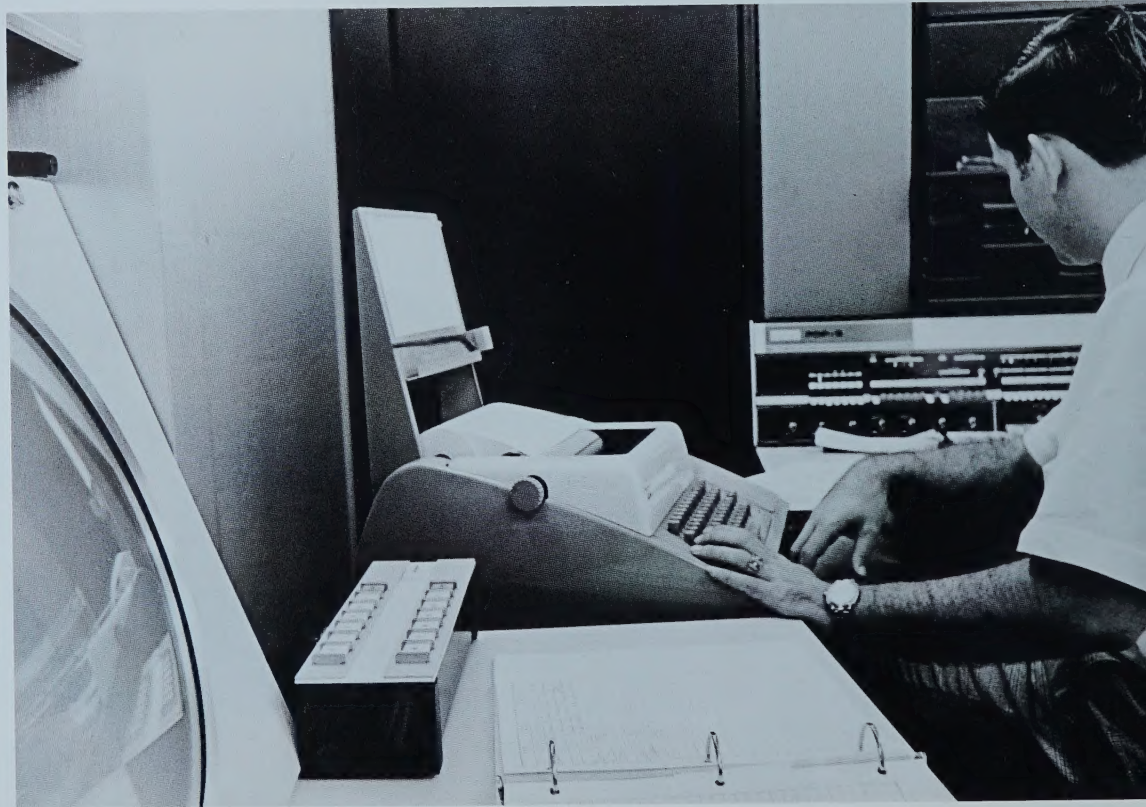
R-Series—inexpensive and easy to use.

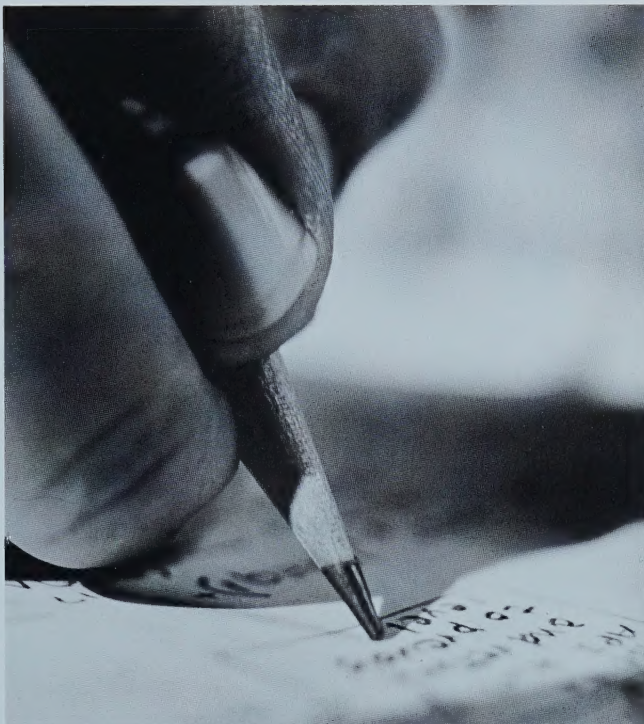
A-Series—analog-to-digital and digital-to-analog converters.

- Training Aides:

Computer Lab—lowest cost, complete digital logic training laboratory.

SOFTWARE, THE KEY TO SUCCESSFUL COMPUTER OPERATIONS





Optimum computer performance and ease of use depends on skillfully-developed, fully-tested software. The software packages supplied with our computers are second to none. A staff of over 80 programmers continues to lead the industry in developing new user-oriented programming systems for all DEC computers.

- DECUS, the Company's users society, grew to 2,500 members and added 130 new programs to its library. It is the second largest and most active user group.
- Several important software developments for each computer were introduced during the year.

PDP-8

The Company introduced FOCAL (FOrmula CALculator), a new conversational programming language developed primarily for users not familiar with computers and who desire a programming system that is extremely easy to learn and use.

PDP-9

An advanced programming system was developed to further enhance the proven application flexibility of the PDP-9.

A sophisticated foreground/background multiprogramming system was introduced for the medium-scale PDP-9, allowing users to almost double the computer's power.

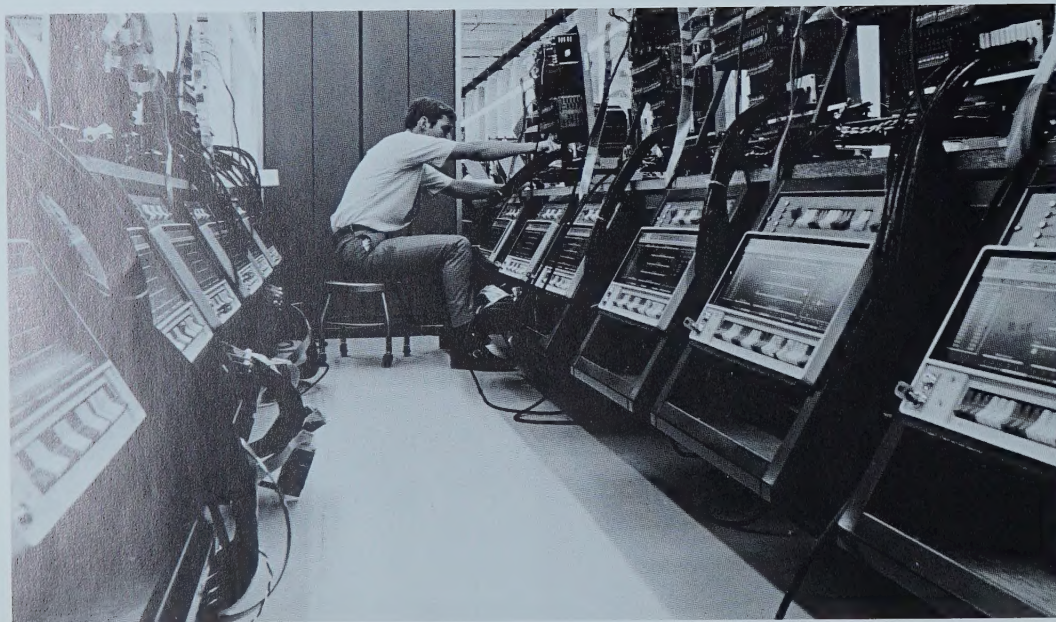
PDP-10

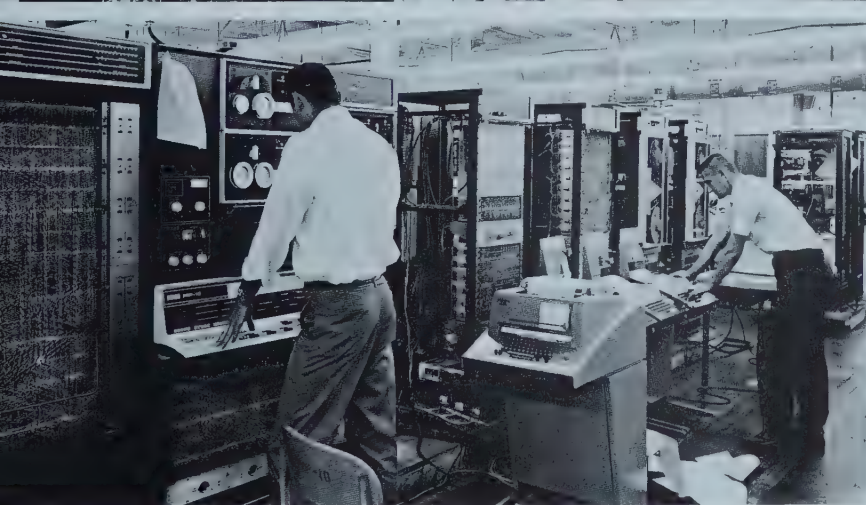
A new time-sharing monitor program for the PDP-10 was the first in the industry to make it possible for users to simultaneously carry on real-time operations, run batch programs, and have interactive on-line time-sharing.

BASIC, a widely-used conversational programming language, was recently added to the PDP-10's program library to further broaden the range of applications that can be handled by this computer.

Users of the PDP-10 (and its predecessor, PDP-6) logged their millionth hour of console time in time-sharing applications.

ON-LINE ON TIME

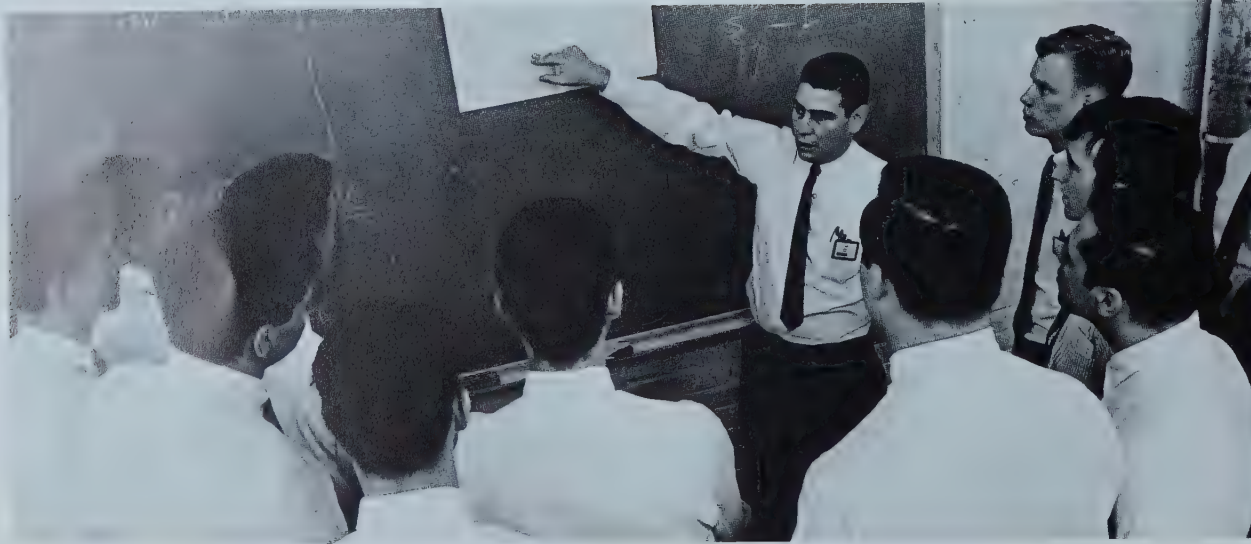


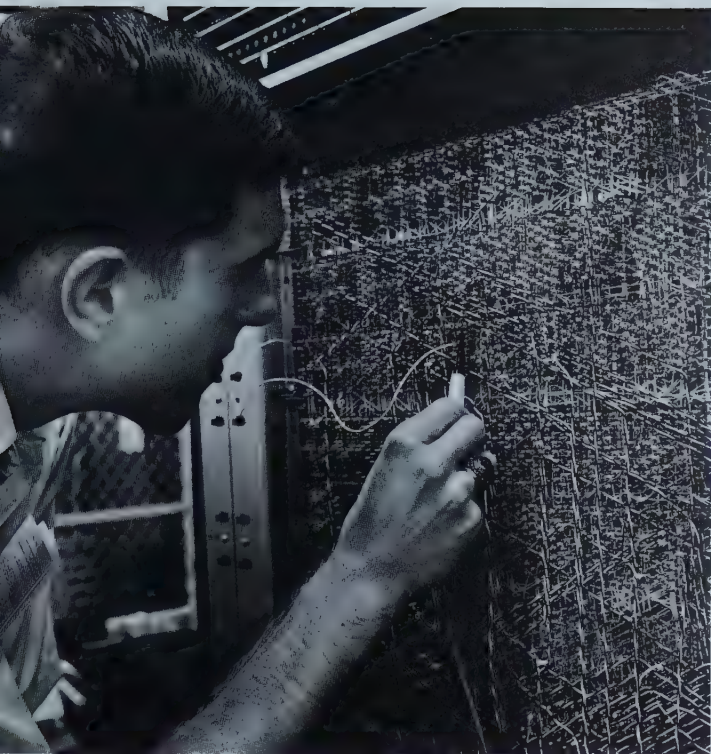


DEC's highly-automated production lines provide large quantities of low-cost computers, peripheral devices, and modules.

- At a final test station on the high-volume PDP-8/I production line, a single computer performs final acceptance testing of 15 PDP-8/I computers simultaneously.
- Continued refinement of automated module production lines brought production up to a level of over 150,000 a month.
- Printed circuit board production took a major step forward with the addition of a second production line which provides the Company with a complete "plated-through-hole" plating and processing system.
- The fourth in a series of computer-controlled module-testers and a computer-controlled integrated circuit-tester were designed and built by DEC to further insure highest quality of modules at the lowest possible price.
- Six computer-directed wire-wrap machines were designed and installed for wiring computer panels. Each machine connects over 300 terminals per hour.
- A computer-controlled panel-tester was designed and installed which checks 11,500 terminals in a matter of minutes.
- Three new numerically-controlled machine tools have been installed, which increased DEC's machining capabilities for manufacture of electromechanical peripheral devices.

SERVICING WHAT WE SELL

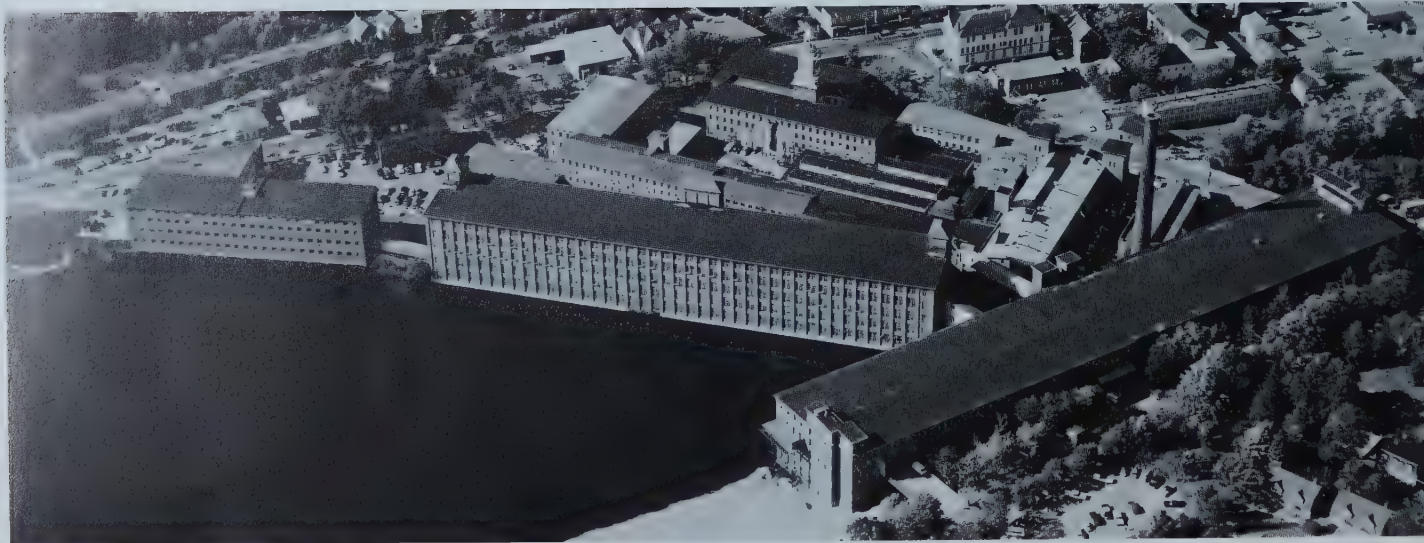




Approximately 360 field engineers, located in 55 service centers in North America, Europe, and Australia, install and service the Company's products.

- DEC senior field engineers average more than six years of computer experience and nine years in the electronics field.
- Each field engineer is thoroughly trained; about 75% of his first year is spent in formal training, including four months of classroom work, before receiving an assignment. Every field engineer spends part of each year in at least one course at the main plant.
- The skilled staff of our Training Department teaches our customers how to use and program DEC computers. They conducted over 220 courses attended by 1,200 customers last year.

EXPANDING TO SERVE WORLDWIDE MARKETS





Floor space in the Maynard plant was increased from 565,000 to over 900,000 square feet to accommodate expansion of engineering and manufacturing operations.

- At Reading, England, both plant and staff were expanded to handle manufacturing of PDP-8/1 and PDP-9 computers.
- Canadian operations doubled their personnel, and now produce power supplies, cables, modules, and Computer Labs.
- A new module assembly plant was started in Puerto Rico.
- Employment increased by 68% to over 2,600 people, including over 225 engineers and programmers.
- There are over 50 sales and service offices located in 11 countries.

DIGITAL EQUIPMENT CORP.

STATEMENTS OF INCOME AND RETAINED EARNINGS

Years Ended June 29, 1968 and July 1, 1967

	1968	1967
Net sales	\$57,339,400	\$38,895,782
Cost of goods sold	28,660,173	19,149,050
Gross profit	28,679,227	19,746,732
Research and engineering expenses	6,366,593	3,997,783
Selling, general and administrative expenses	9,642,505	7,461,211
	16,009,098	11,458,994
Operating profit	12,670,129	8,287,738
Other income, net	264,561	32,022
Income before provision for U.S. and foreign income taxes	12,934,690	8,319,760
Provision for U.S. and foreign income taxes	6,078,000	3,778,555
Net income	6,856,690	4,541,205
Retained earnings at beginning of fiscal year	8,229,632	3,688,427
Retained earnings at end of fiscal year	\$15,086,322	\$8,229,632
Net income per share of common stock (based on shares outstanding at end of each period).	\$2.34	\$1.56

The accompanying notes to financial statements are an integral part of these statements.

TION AND SUBSIDIARIES

BALANCE SHEETS

As at June 29, 1968 and July 1, 1967

	ASSETS	1968	1967
Current:			
Cash		\$ 974,211	\$ 1,512,884
Accounts receivable		15,489,345	9,248,874
Inventories, at lower of cost (principally first-in, first-out) or market:			
Raw materials		2,123,744	1,755,193
Work in process and finished goods		14,809,388	7,338,808
Total inventories		16,933,132	9,094,001
Prepayments and other current assets		165,769	114,964
Total current assets		33,562,457	19,970,723
Property, plant and equipment and leasehold improvements, at cost, less allowances for depreciation and amortization of \$2,009,428 and \$1,535,361 (note B)		2,915,467	1,685,698
Other assets		18,952	76,684
		<u>\$36,496,876</u>	<u>\$21,733,105</u>
	LIABILITIES		
Current:			
Notes payable, principally to banks		\$ 4,500,000	\$ 21,875
Accounts payable		4,321,281	2,181,299
Provision for U.S. and foreign income taxes		2,977,331	2,714,844
Other accrued liabilities		2,007,742	1,107,705
Total current liabilities		\$13,806,354	\$ 6,025,723
	STOCKHOLDERS' EQUITY		
Common stock, par value \$1.00 per share, authorized 6,000,000 shares; issued and outstanding 2,926,600 shares and 2,910,000 shares (note D)		\$ 2,926,600	\$ 2,910,000
Additional paid-in capital		4,677,600	4,567,750
Retained earnings		15,086,322	8,229,632
Total stockholders' equity		<u>22,690,522</u>	<u>15,707,382</u>
		<u>\$36,496,876</u>	<u>\$21,733,105</u>

The accompanying notes to financial statements are an integral part of these balance sheets.

NOTES TO FINANCIAL STATEMENTS

A—The consolidated financial statements include the accounts of the parent company and all subsidiaries. The accounts of the foreign subsidiaries are included as of April 30.

B—At June 29, 1968, major classes of depreciable assets, at cost, are equipment and fixtures, \$3,901,000 and leasehold improvements, \$646,000. Depreciation is computed primarily on the double-declining balance method for equipment and fixtures and on the straight-line method for leasehold improvements.

C—At June 29, 1968, the company had long-term leases on real property requiring annual rentals of approximately \$382,000 through 1971 and \$433,000 to 1977.

D—At June 29, 1968, there were outstanding under the Company's Qualified Stock Option Plan options to purchase 76,950 shares of common stock at an average price of \$56.00 per share (including 21,250 shares currently exercisable at prices of \$7.00 and \$8.00 per share). During 1968 options to purchase 38,300 shares were granted to employees at an average price of \$99.70 per share (fair market value at the dates options were granted). Options for 16,600 shares were exercised for an aggregate option price of \$126,450 and 3,250 shares were cancelled. At June 29, 1968, 41,450 shares of common stock have been reserved for options not yet granted under the Plan.

At June 29, 1968 there were non-qualified options outstanding to purchase 16,000 shares of the Company's common stock at an average price of \$49.19 per share (the fair market value at the dates options were granted). The terms of these options are similar to the terms of the qualified stock options.

In June, 1968, the Directors of the Company adopted, subject to stockholder approval, the 1968 Restricted Stock Purchase Plan and have reserved 110,000 shares of common stock for issue under this Plan. Options were issued for the purchase of 8,500 shares at a price of \$67.50 per share, representing 50% of the market price at the date options were granted. The Directors also adopted, subject to stockholder approval, the 1968 Employee Stock Purchase Plan and have reserved 150,000 shares of common stock for issue under this Plan. No shares have been issued up to June 29, 1968.

E—The Company has a non-contributory pension plan covering substantially all of its employees. The total estimated cost of this plan was \$220,000 in 1968 and \$231,000 in 1967 including amortization of past service costs over a twenty-year period.

DIGITAL EQUIPMENT CORPORATION AND SUBSIDIARIES

STATEMENTS OF SOURCES AND USES OF FUNDS

Years Ended June 29, 1968 and July 1, 1967

Sources of funds:

	1968	1967
From operations:		
Net income.	\$ 6,856,690	\$ 4,541,205
Depreciation and amortization.	677,787	661,732
Sale of common stock less related expenses		4,802,750
Exercise of options to purchase common stock	126,450	
Increase in bank loans	4,500,000	
Increase in other liabilities	3,302,506	2,194,172
	<u>15,463,433</u>	<u>12,199,859</u>

Uses of funds:

Additions to equipment and leasehold improvements less disposals	1,907,556	735,812
Increase in inventories and accounts receivable	14,079,602	5,464,542
Decrease in long-term debt.		316,250
Decrease in bank loans.		4,600,000
Other, net.	14,948	(21,963)
	<u>16,002,106</u>	<u>11,094,641</u>
Increase (decrease) in cash resources	<u>(\$ 538,673)</u>	<u>\$ 1,105,218</u>

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Stockholders
Digital Equipment Corporation
Maynard, Massachusetts

We have examined the balance sheet of Digital Equipment Corporation and subsidiaries as at June 29, 1968 and the related statement of income and retained earnings and the statement of sources and uses of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the financial statements for the year ended July 1, 1967.

In our opinion, the accompanying statements present fairly the financial position of Digital Equipment Corporation and subsidiaries at June 29, 1968 and July 1, 1967 and the results of their operations and sources and uses of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Boston, Massachusetts
July 24, 1968

Lybrand, Ross Bros. & Montgomery

BOARD OF DIRECTORS

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President
Ohio University

John Barnard, Jr.
General Counsel
Massachusetts Investors Trust

William H. Congleton
Senior Vice President
American Research and Development Corporation

Arnaud de Vitry
Chairman of the Board
Technical Studies, Incorporated

Henry W. Hoagland
Vice President
American Research and Development Corporation

William H. McLean
Assistant to the President
Stevens Institute of Technology

Kenneth H. Olsen
President
Digital Equipment Corporation

Miss Dorothy E. Rowe
Vice President & Treasurer
American Research and Development Corporation

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Kenneth H. Olsen
President

Harry S. Mann
Vice President, Finance

Winston R. Hindle, Jr.
Vice President, Group Manager

Stanley C. Olsen
Vice President, Group Manager

Nick J. Mazzaresse
Vice President, Group Manager

Peter J. Kaufmann
Vice President, Manufacturing

Theodore G. Johnson
Vice President, Sales

TRANSFER AGENT
AND REGISTRAR:
The National Shawmut Bank
of Boston
40 Water Street
Boston, Massachusetts

CO-TRANSFER AGENT
AND CO-REGISTRAR:
Morgan Guaranty Trust Company
of New York
23 Wall Street
New York, New York

GENERAL COUNSEL:
Gaston, Snow, Motley & Holt
82 Devonshire Street
Boston, Massachusetts

CERTIFIED PUBLIC
ACCOUNTANTS:
Lybrand, Ross Bros. & Montgomery
2 Center Plaza
Boston, Massachusetts

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 11 A.M., Tuesday, October 29, 1968, at the Independence Room, Sheraton-Boston Hotel, Prudential Center, Boston, Massachusetts.

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WORLDWIDE SALES AND SERVICE

MAYNARD and CAMBRIDGE, MASS. • NEW HAVEN, CONN. • ROCHESTER, LONG ISLAND and NEW YORK CITY, N.Y. • PARSIPPANY and PRINCETON, N.J. • PHILADELPHIA and PITTSBURGH, PA • COLLEGE PARK, MD. • ATLANTA, GA. • HUNTSVILLE, ALA. • COCOA, FLORIDA • ANN ARBOR, MICH. • CLEVELAND and DAYTON, OHIO • CHICAGO, ILLINOIS • MINNEAPOLIS, MINN. • HOUSTON, and DALLAS, TEX. • PALO ALTO and LOS ANGELES, CALIF. • DENVER COLO. • ALBUQUERQUE, N.M. • SALT LAKE CITY, UTAH • SEATTLE, WASH. • OTTAWA, MONTREAL, TORONTO and EDMONTON, CANADA • READING and MANCHESTER, ENGLAND • STOCKHOLM, SWEDEN • THE HAGUE, NETHERLANDS • COLOGNE and MUNICH, GERMANY • PARIS, FRANCE • SYDNEY, MELBOURNE and WEST PERTH, AUSTRALIA

